



BUDGET POLICY

**Funding, Reserve and Virement
Policy**

**MAMUSA LOCAL
MUNICIPALITY**



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1. Introduction

The objective of this policy is to secure sound and sustainable management of the budgeting and reporting practices of the municipality by establishing requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting processes and other relevant matters as required by the Act. This policy framework shall be read in the context of the provisions of the following Acts, Regulations and Administrative Guidelines:

- ❖ MFMA Circulars;
- ❖ MFMA, Act 56 of 2003;
- ❖ Municipal Budget and Reporting Regulations, Government Gazette No. 32141 dated 17 April 2009

2. POLICY OVERVIEW

Employees of the Municipality, involved directly in the handling of the budget, must possess an acute awareness of and show a strong commitment to the enforcement and maintenance of adequate internal controls to govern the process.

3. PURPOSE OF THE BUDGET

To facilitate the implementation and maintenance of a Budget policy in the Municipality of Mamusa to assist in formalizing and standardizing processes and procedures to ensure the following:

- ❖ Proper and adequate guidelines are instituted to regulate budgeting;
- ❖ Validity of budget transactions;

The key attributes of such a methodology should be its ability to focus on the major activities (cost drivers) required ensuring the objectives of government are achieved. In so doing, also determines the cost involved.

The process that can best achieve this milestone, is the implementation of the zero-based or activity based costing (ABS) methodology and performance budgeting.

The budget should be driven by development strategies that address political goals, rather than by administrative imperatives.

The Municipality must strengthen and evaluate the alignment between medium and long-term plans and funding proposals;

Revise its policy priorities, macro-economic framework and resource envelope;

Evaluate departmental plans and allocate available resources in line with policy priorities;

Develop programmes that will be linked to the set priorities;

The purpose of the budget process is to complete a medium-term expenditure framework that apportions resources in line with Government policy priorities for the next three years.

Political oversight of the budget process is essential to ensure that:

- ❖ The political executive is responsible for policy and prioritization
- ❖ Policy priorities are linked to departmental spending plans and the delivery of quality services
- ❖ Formulating five-year strategic plans that will guide the policy prioritization and budgeting process for the following year's MTEF.
- ❖ Matching policy priorities and resources by deciding and agreeing on the best allocation of scarce resources to fund Government's many social, economic and political goals.

- ❖ Reprioritizing within the base line, presenting fiscal implications of new policy proposals, linking these to the strategic priorities of the Department and
- ❖ Providing the necessary motivation for proposed changes to the baseline (if any changes).
- ❖ Increasing the priorities status of a particular objective that cannot be accommodated within the baseline allocation, such as a higher that anticipated acceleration in the delivery of an existing service
- ❖ New policies that the municipality plans to implement within the new MTEF period

The Accounting Officer is ultimately responsible for establishing and enforcing policies and procedures governing the budget process.

Personnel appointed must adopt, implement and adequately maintain appropriate processes and procedures to ensure the rigid enforcement of all stipulated policy directives.

4. BUDGET STEERING COMMITTEE

The Mayor of the Municipality must establish a budget steering committee to provide technical assistance to the Municipal Manager in discharging the responsibilities set out in section 53 of the Act.

The steering committee must consist of at least the following persons:

- ❖ The councilor responsible for financial matters;
- ❖ The municipal manager
- ❖ The chief financial officer
- ❖ The senior managers responsible for at least the three largest votes in the municipality;
- ❖ The manager responsible for planning; and
- ❖ Any technical experts on infrastructure.

5. QUALITY CERTIFICATION

Whenever an annual budget and supporting documentation, an adjustments budget and supporting documentation or an in-year report of the municipality is submitted to another organ of state, it must be accompanied by a quality certificate complying the Schedule A,B or C, as the case may be, and signed by the municipal manager.

6. GENERAL BUDGETING PRINCIPLES

- ❖ The Budget and Budget Preparation process shall comply with the requirements of the Municipal Finance Management Act of 2003 and nothing contained in this policy shall contradict the said legislation.
- ❖ The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- ❖ Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each budget vote.
- ❖ When preparing its budget, Council must ensure that the budget is in accordance with its Integrated Development Plan.

7. BUDGET PREPARATION PROCESS

The Chief Financial Officer shall prepare a draft budget timetable for the ensuing financial year which shall be tabled by the Mayor to Council for approval at least 10 months before the start of the next budget year (by 31 August each year). The budget timetable shall contain key deadlines for:

- a) the annual review of the IDP
- b) the review of budget related policies
- c) the preparation, tabling and approval of the annual budget
- d) The consultative processes forming part of the budget process.

Heads of Departments shall ensure that they meet the deadlines as set out in the Budget Timetable.

- 7.2 The Budget Steering Committee shall give general direction to the budget process and also indicate affordable budget growth and envisaged tariff increases as the base line of the budget process.

- 7.3 The Mayor shall table the draft annual budget to Council at least ninety days before the start of the new financial year.
- 7.4 Immediately after the draft annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and invite the local community to submit representations in regard to such budget. The public participation process must be a formal process and must ensure adequate consultation as contemplated in the MFMA.
- 7.5 Council shall consider approval of the annual budget at least 30 days before the start of the financial year to which it relates. The resolutions and performance objectives referred to in Section 17 of the MFMA must simultaneously be adopted.
- 7.6 The annual tabled to Council for approval shall include the following supporting documents:
- a) The budget must be in the format prescribed by National Treasury and must be divided into a capital and an operating budget.
 - b) The budget must be balanced and reflect the realistically anticipated revenue by major revenue source for the budget year concerned.
 - c) measurable performance objectives for each budget vote, taking into account the municipality's IDP;
 - d) the projected cash flows for the financial year by revenue sources and expenditure votes broken down per month;
 - e) any proposed amendments to the IDP;
 - f) the cost to the municipality for the budget year of the salaries, allowances and other benefits of its political office bearers and other councilors, the municipal manager, the chief financial officer, and other senior managers employed in terms of Section 57 of the Municipal Systems Act;

- g) particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and originations such as NGO's, welfare institutions and so on; and
- h) particulars of the municipality's investments.

7.9 The Chief Financial Officer must within 14 days after approval of the budget submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget and insert it onto Council's website.

7.10 The Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council. The SDBIP should include the following five components:

- a) Monthly projections of revenue to be collected for each source
- b) Monthly projections of expenditure (operating and capital) versus actual expenditure for each vote
- c) Quarterly projections of service delivery targets and performance indicators for each vote
- d) Ward information for expenditure and service delivery
- e) Detailed capital works plan broken down by ward over three years

The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the previous three years, and the estimated revenues and expenses for the current year.

8. PUBLIC PARTICIPATION PROCESS

Immediately after the draft budget has been tabled, the municipality must convene hearings on the draft budget in April and invite the public and stakeholders to make representation and the council hearings and submit comments in response to the draft budget.

9. FUNDING OF CAPITAL AND OPERATING BUDGET

The budget may be financed only from:

- (i) Realistically expected revenues, based on current and previous collection levels,
- (ii) Cash-backed funds available from previous surpluses where such funds are not required for other purposes,
- (iii) Borrowed funds in respect of the capital budget only, and
- (iv) Grant funding from Provincial and National Government.

10. OPERATING BUDGET PREPARATION

The Chief Financial Officer, jointly with Heads of Departments, under the oversight of the Budget Steering Committee, shall develop a balanced operating budget before it is submitted to Council in March every year, according to the approved Budget Timetable and based on the IDP, legislative requirements, Budget Strategy and assumptions approved by Council.

The principle of zero-based budgeting shall be applied in the preparation of the operating budget.

Heads of Departments shall establish budget requirements in respect of Maintenance of Assets, taking cognizance of backlogs and shall, in consultation with the Chief Financial Officer prepare a strategy to address such maintenance needs and backlogs.

Revenue projections shall be done by the respective Departments in consultation with the Chief Financial Officer, taking cognizance of actual performance, economic growth opportunities as well as affordable and acceptable tariff increases.

The municipality shall budget in each annual and adjustment budget for the contribution to:

- Provision for accrued leave entitlements equal to 100% of the accrued leave,
- Provision for bad debts in accordance with its rates and tariffs policies,
- Depreciation and finance charges shall be charged to or apportioned between the departments or votes to which the projects relates
- An adequate percentage of the operating budget component of each annual and adjustments budgets should be set aside for maintenance.

When considering the draft annual budget, council shall consider the impact which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of household.

The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

11. CAPITAL BUDGET PREPARATION

11.1 Every Head of Department shall, in respect of the activities of the Departments, in consultation with the Chief Financial Officer, prepare:-

- (a) When requested by the Municipal Manger, and/or the Mayoral Committee, a Capital Budget reflecting estimates and actual expenditure for the current financial year.

11.2 No capital projects will be accepted for inclusion into the draft budget unless it is accompanied by the projected cost covering all financial years until the project is operational, future operational costs and revenue and a cash flow for the project.

11.3 Expenditure of a project shall be included in the capital budget it if meets the assets definition i.e. if it results in an asset being acquired or created and its value exceeds R5000 and has a useful life in excess of one year.

11.4 The municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

11.5 The envisaged sources of funding for the capital budget must be properly considered and the council must be satisfied that this funding is available and has not been committed for other purposes.

12. BUDGET IMPLEMENTATION

- a) The Municipal Manager is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
 - Funds are spent in accordance with the budget;
 - Expenses are reduced if expected revenues are less than projected; and
 - Revenue and expenses are properly monitored.

Heads of Departments are responsible for the management and control of the Budgets of their Departments in conjunction with the Chief Financial Officer and shall present reports to the Municipal Manager in this regard whenever requested to do so.

- b) The Municipal Manager must prepare an adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council.
- c) The Municipal Manager must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

13. VIREMENTING OF FUNDS

Budgets are approved reflecting different Votes. In terms of the definitions of the Municipal Finance Management Act, a Vote means:

One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional area concerned.

- (a) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned?

Changing circumstances and priorities may give rise to a need to shift (virement) funds within an approved Vote (as defined in the MFMA).

A request for virementing of funds on shall be made by the affected Head of Department on the appropriate form, for recording by Budget & Treasury.

Approval of Virements in respect of Operating Budget and Capital Budget:

Up to 10% of the original budget, per occasion, recommended by the affected Department endorsed by the Chief Financial Officer and final approval by the Municipal Manager.

The following principles must be adhered to:

Budget amendments and virementing from Capital budget to Operating Budgets are not permissible;

Virements are not permitted in relation to the revenue side of the budget;

Virements towards personnel expenditure are not permitted; however, virements within personnel expenditure are allowed.

Virements to and from the following are not permitted: bulk purchases, debt impairment, interest charges, depreciation, grants to individuals, revenue forgone, insurance and VAT.

Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.

Expenditure may only be incurred after approval as set out above.

A quarterly report, indicating all virements affected have to be compiled and submitted to Council for monitoring.

14. ADJUSTMENT BUDGETS

A Budget amendment means the shifting of funds between Votes as defined in the MFMA. Only Council may approve Budget amendments after having considered a recommendation from the Mayor.

The Mayor may table an adjustment budget before Council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year. An adjustment budget can be tabled upon a change in needs or priorities when it becomes necessary in the following instances (MFMA Chapter 4(28)) :

Material under-collection of revenue;

To appropriate additional reserves that have become available but only to revise or accelerate spending programmes already budgeted for.

Unforeseen and unavoidable expenditure recommended by the Mayor within a prescribed framework.

All recommendations for budget amendments must contain the financial comment from the Chief Financial Officer prior to consideration and approval thereof.

Expenditure may only be incurred on amended budgets after approval by Council of such Budget amendment, except in case of emergency or other exceptional circumstances as defined in Section 29 of the MFMA.

Only one adjustments budget may be tabled in Council during a financial year, except when the additional revenues contemplated in section 28(2)(b) in the Act are allocations to a municipality in a national or provincial adjustments budget, in which case the Mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget to appropriate these additional revenues

The municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation which must be in the format specified in Schedule B or the Municipal Budget and Reporting Regulations. This should thus include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

The Adjustments budget must be submitted within ten working days after the Mayor has tabled it in the municipal council.

The adjustment budget must be submitted to National and Provincial Treasury in both printed and electronic form.

Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting information, as well as the resolutions referred to.

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15. BUDGET IMPLEMENTATION

- (a) The accounting officer with the assistance with the chief financial officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:

Funds are spent in accordance with the budget,
Expenses are reduced if expected revenues are less than projected,
and Revenues and expenses are properly monitored.

- (b) The accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any Impending overspending, together with the steps taken to prevent or rectify these problems.

16. REPORTING

Monthly budget statements

The accounting officer with the assistance with the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

QUARTELY REPORTS

- (a) The Accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.
- (b) The Accounting officer must submit a report on such assessment to the Mayor by the 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.
- (c) The Accounting officer may in such report make recommendation of the Chief Financial Officer for adjusting the annual budget and revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

17. The following documentation must be placed on the municipality's website:

The annual and adjustments budgets and all budget related documents

All budget related policies

The Integrated Development Plan

The annual report

All performance agreements

All service delivery agreements

All long borrowing contracts

All quarterly and mid-year reports submitted to Council on the implementation of the budget and financial state of affairs of the municipality.

18. POLICY APPLICATIONS

This policy affects all the sections

19. POLICY AUDIT

A periodic policy audit process shall be conducted either by the Finance section, or Municipal Manager, when deemed necessary. The Provincial Government and or Auditor-General may also audit and formally request amendment of the policy, as may require from time to time, ensuring appropriate application and compliance the relevant Treasury and MFMA regulations and other legislation.

20. POLICY AMENDMENT

No amendment(s) may be made to any section of this policy without such amendment(s) first being: Consulted upon with the Chief Financial Officer and the Municipal Manager. Duly approved and signed by the Council.